

# Developers & USDA Rural Development

## Developers & USDA Build Affordable Multi-Family Housing In Rural Areas

### About the “538” Program

*Park West Apartments  
Mountain Home, Arkansas*



*Picture 1, Park West Apartments  
These beautiful, 36 multi-family rental units in sought-after Mountain Home, Arkansas, were built for persons 55 and older. The average rent of \$490 per month, including utilities, is an affordable option for senior living in this rural community.*

The purpose of the Section 538 Guaranteed Rural Rental Housing Program is to increase the supply of affordable rural rental housing, through the use of loan guarantees that encourage partnerships between Rural Development, private lenders and public agencies. The housing is available to families or persons whose incomes at time of initial occupancy do not exceed 115% of median income.

Eligible uses of the program include new construction costs of the project, acquisition with moderate rehabilitation of at least \$6,500 per unit and revitalization of Section 515 properties. Development includes family, senior and farm labor housing properties.

*“The Section 538 program is the best financing vehicle for a Section 42 Low Income Tax Credit project that I know. The 40 year fully amortizing loan works well to reduce debt service costs. We have used the program on a number of projects and our borrowers are very satisfied with the result.”*

*Michael F. Petrie, CMB*

*Immediate Past Chairman, Mortgage Banker’s Association  
President, P/R Mortgage & Investment Corporation*

### Program Features



*Picture 2, Park West Apartments, located in Mountain Home, Arkansas, cost \$2.2M to build. Financing for the project includes Tax Credits, HOME funds and a \$1,340,000 Section 538 loan. The Section 538 Interest Credit brought down the borrower’s interest rate to 5.46%.*

- Low equity requirements – 10% equity for profit oriented entities, 3% equity for nonprofits
- Compatible with other financing sources, including 9% tax credits, bonds, HOME funds and HUD Vouchers
- Can be amortized for up to 40 years
- Flexibility of using a 25 year loan term with 40 year amortization
- Source of capital may be proceeds from tax-exempt financing
- No requirement for compliance with Davis-Bacon Wage Act
- Best-negotiated interest rate between borrower and lender
- Interest rate buy-down with interest credit
- No restriction on “return to owner”
- Affordability criteria are not unduly burdensome, tenant income may increase beyond 115% of median income after initial occupancy
- There is no asset restriction for seniors
- Eligible loan types for the USDA guarantee include construction/permanent loan or the permanent take-out loan

## Authorized Loan Purposes

- Development of new rental housing, including land, on-site & off-site improvements, office & maintenance buildings, community & recreation facilities, parking, landscaping, fencing, appliances, etc
- Acquisition with rehabilitation of existing properties when rehabilitation is at least \$6,500 per unit
- Loan fees & costs (including USDA fees), professional services, market study costs, developer fees and construction interest

## Affordability Criteria

Affordability restrictions below must be established as a deed restriction for the full term of the loan, even if the loan is prepaid.

- Eligible tenants are those with incomes at or below 115% of the area median. After initial occupancy, there are no further income restrictions or any requirement for tenant income certification
- Average rent + utility allowance must be equal to or less than 30% of 115% of the area median income
- Maximum rent +utility allowance must be equal to or less than 30% of 115% of area median income

## Project Eligibility

- Attached or detached, semi-detached, row houses, modular or manufactured structures
- Project must be rural area – typically in unincorporated areas and cities with a population less than 20,000
- Project must consist of at least 5 units

## Size of Loans

- No minimum or maximum loan size
- For-profit borrowers – 90% of project's appraised value or total development cost
- Nonprofit borrowers or public bodies – 97% of appraised value or total development cost

## Interest Rate, Structure, and Fees

- Interest Rate – best fixed rate negotiated rate between borrower and Lender
- Loan Term – minimum of 25 years and a maximum of 40 years (Affordability restrictions fixed throughout original loan term)
- Structure – amortized up to 40 years, 25 year balloons permitted
- Fees – Lender's reasonable and customary fees negotiated between lender and borrower; USDA charges a \$2,500 application fee, a one-time guarantee fee equal to 1% of guaranteed loan amount due at loan closing, and an annual servicing fee equal to 50 basis points on the outstanding loan balance as of December 31 of each year

For further information contact the Rural Development Office of the state where your project is or will be located. This information is available [http://www.rurdev.usda.gov/recd\\_map.html](http://www.rurdev.usda.gov/recd_map.html)



Committed to the future of rural communities.